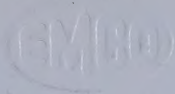


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EMCO LIMITED ANNUAL REPORT 1970

Directors

John W. Adams, F.C.A., London, Ontario
Executive Vice-President and Treasurer, Emco Limited

C. Norman Chapman, London, Ontario
President and General Manager, Emco Limited

W. Harold Evans, Toronto, Ontario
Director, Honeywell Controls Limited

Hon. Louis P. Gelinas, Montreal, Quebec
Consultant to Geoffrion, Robert & Gelinas, Co.

C. Robert Ivey, Toronto, Ontario
President, Multi-Grind Limited

Peter J. Ivey, London, Ontario
Chairman, Chief Executive, Emco Limited

Peter N. Jaffray, Toronto, Ontario
Vice President & Director, Dominion Securities Corporation Limited

Frederick W. P. Jones, London, Ontario
Professor, School of Business Administration, The University of Western Ontario

Ralph S. MacLean, London, Ontario
Vice-President, Plumbing & Industrial Group, Emco Limited

William G. Poy, Toronto, Ontario
Business Consultant

W. Jackson Schultz, Short Hills, New Jersey
Senior Vice-President, Emco Wheaton Inc.

John H. Stevens, London, Ontario
Retired Chairman, Emco Limited

David B. Weldon, London, Ontario
Chairman of the Board, Midland-Osler Securities Limited

Robert F. Wheaton, Short Hills, New Jersey
Director, Emco Wheaton Inc.

Honorary Director

C. H. Ivey, London, Ontario
Retired Chairman, Emco Limited

Officers

Peter J. Ivey
Chairman, Chief Executive Officer

C. Norman Chapman
President and General Manager

John W. Adams, F.C.A.
Executive Vice-President and Treasurer

John G. Beresford,
Vice-President, Engineered Products Group

Ralph S. MacLean
Vice-President, Plumbing & Industrial Group

Stuart F. Smith
Vice-President, General Manufacturing Division

A. Robert Martin, C.A.
Comptroller & Secretary

William M. Eager,
Assistant Treasurer

Transfer Agents & Registrars

Royal Trust Company,
Toronto, Montreal and Winnipeg

The Canada Trust Company
Toronto, Montreal and Winnipeg
(9³/₄% debentures)

Auditors

Peat, Marwick, Mitchell & Co.
London, Canada

1970 ANNUAL REPORT

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Financial Summary

	1970	1969
Sales — decreased 6%	\$83,810,000	89,380,000
Earnings before extraordinary item — decreased 30% ...	1,232,000	1,758,000
Extraordinary item	<u>—</u>	<u>1,649,000</u>
Net earnings	<u>\$ 1,232,000</u>	<u>3,407,000</u>
Common share results		
Before extraordinary item		
Net earnings	\$.98	1.39
Cash earnings	1.80	2.23
Including extraordinary item		
Net earnings98	2.71
Cash earnings	1.80	3.55
Net worth	15.00	14.58
Dividends paid55	.55
Return on shareholders' equity January 1, (based on earnings before extraordinary item)	6.7%	11.2%
Capital expenditures — net	\$ 926,000	1,742,000

To Emco Shareholders

Consolidated sales for your company in 1970 were \$83.8 million. This represents a decrease of 6.3% from 1969 record sales of \$89.3 million.

1970 consolidated net earnings were \$1.2 million or .98¢ per common share. This compares with \$1.39 per share last year (excluding the extraordinary item). The decrease in net earnings reflects a substantially lower level of housing activity in Canada from a record high of 210,000 starts in 1969 to 190,000 starts in 1970, many of which were commenced in the last quarter. The 1970 figure is somewhat misleading as it includes a tremendous late year injection of federal funds into the market for low cost housing. Other contributing factors include severe price competition in our domestic markets and continuing operating problems in our U.S. subsidiary.

Early in 1970 the organization of your company was restructured and the operating divisions were divided into two groups consisting of the Plumbing and Industrial Group and the Engineered Products Group. Headed by their respective group Vice Presidents, this change gives recognition to your company's two distinct operating areas and allows more direct and flexible management of your company's changing markets.

PLUMBING AND INDUSTRIAL GROUP

The Plumbing and Industrial Group is directly affected by the construction segment of Canadian industry. Building in Canada during 1970 was hampered by strikes, high money costs and a shortage of mortgage funds. Sharply reduced housing starts, combined with increased imports of competitive product lines resulted in lower profits for the Group.

Emco Supply

Sales volume decreased slightly, however, this division's share of market and gross profit margins were maintained despite intense competition. Operating costs in this division, where 50% of the total overhead consists of salaries and wages, increased during 1970 and we are bending every effort toward more efficiency by implementing new systems and techniques and exploring other cost reduction areas. The dynamic growth forecast in Canada's population during this decade indicates a strong and growing demand for new shelter, in the form of apartments, houses and condominiums. A corresponding growth in schools, commercial buildings and service institutions presents a bright prospect for the construction

industry. Emco Supply intends to grow with this demand and participate profitably in the resulting increased plumbing and industrial supply business.

General Manufacturing Division

This division consisting of the London Factory and the Plastics plant at Brampton, Ontario, experienced a disappointing year largely due to the general economic conditions already discussed. However, strong emphasis was put on development engineering and several new products, including a complete line of hospital and laboratory trim, are now being introduced to the industry. The Brampton Plastics plant has also been successful in diversifying its product line and orders booked for 1971 indicate a high level of production activity.

ENGINEERED PRODUCTS GROUP

The senior management structure of this Group was completely reorganized during 1970. A new group Vice-President was appointed and his responsibilities encompass:

- (1) Seven operations in Canada, England, France, Germany, Australia, United States and Japan.
- (2) The Research and Development centre at Margate, England.
- (3) The marketing, engineering and administrative co-ordination for the Engineered Products Group, conducted through Emco Wheaton (International) Limited, based in London, Ontario.

The operating results of all of the units within the Group were quite satisfactory, with the exception of the U.S. operation. Last year we reported that personnel problems were plaguing the U.S. company and changes were being made in the top management team. This was done and while the turn-around has taken longer than expected, a small profit is forecast for 1971.

Canada

The Canadian operation had a satisfactory improvement in sales and earnings during the year. Some changes were made in the methods of product distribution by Emco-Wheaton Limited and these appear to be most successful.

Great Britain

Emco Wheaton U.K. Limited had an extremely busy year and this was reflected in improved results. This subsidiary was Emco's first operating unit to finalize an order for the new Niagara range of marine loaders,

which was developed and subsequently introduced by our Research and Development centre in June, 1970. Two major orders have now been received and these assure a busy year for our U.K. factory.

Germany

1970 was a very satisfactory year for Emco Wheaton GmbH. Early in 1971, Mr. F. Pitton, Sr., our German partner, indicated that he wished to retire as General Manager. He has been appointed Chairman of the Board of Directors of the German subsidiary company. Mr. R. Kreuzer has been named General Manager, bringing to us many years of experience with a large multi-national company operating in Germany.

Late in March, we received an order for the new Niagara Loaders from an important Italian customer.

France

Emco's small assembly and distribution operation in France also had a most successful year and has now firmly established its position in the French market.

Japan

Emco Wheaton (Japan), Limited had a record year in terms of sales and profits. We are confident that Emco's able management there can and will successfully introduce our new Niagara marine units to Japan in 1971.

Australia

Our former Australian partner resigned as General Manager in 1970, and we now own 100% of the shares of this company. Mr. V. E. Vinen, formerly General Manager of the Japanese subsidiary, was re-located to Australia as head of that operation at the beginning of the year. Total sales volume was somewhat less than 1969 due to the removal of several unprofitable products, however, a significant improvement in net earnings was achieved.

United States

Depressed economic conditions in that country and some personnel problems adversely affected this operation. Emco's top corporate management team will combine with the U.S. divisional management toward solving this problem in 1971.

Research and Development

Located at Margate, England, the Research and Development centre is to be congratulated on its achievements during 1970, including the finalization of the new Niagara series of marine loaders which appear to be one of the finest fluid transfer systems

ever produced anywhere in the world. Patent applications are now complete and after a considerable investment of time and money, we are convinced that we offer a unit with many features superior to those offered by any competitive product. This team of 22 employees under the direction of Dr. Keith Upton is presently working on many important products that will contribute to the planned growth and profitability of the Group.

OUTLOOK FOR 1971

Canadian fiscal policies, designed to curb inflation during 1970, have caused a serious cutback in the building industry, primarily in the housing and apartment construction segments, with the attendant decrease of sales for our Plumbing and Industrial Group.

Interest rates are now easing and mortgage money is beginning its anticipated flow. These factors, combined with the unabated need for more housing and the 145,000 dwellings still under construction and carried over from last year's starts, plus the 220,000 starts predicted for 1971, strongly indicate that this may be a record year in the Canadian housing field. Construction activity in the first quarter of 1971 however, has been hampered by the severe winter in Canada.

Our wholesale operation, conducted through 29 branches in major centres across Canada, continues to adapt to changing markets. This program includes the recent change of name from Wholesale Division to Emco Supply. This name was selected to better reflect the long term outlook and to allow this division to continue broadening its range of products and scope of activities in Canada.

Ecology, a science dealing with the relation between the various forms of life and their environment is no longer the sole concern of scientists but the responsibility of everyone of us. Effective pollution abatement and control requires the close cooperation of industry and all levels of government. In recognition of this necessity for environmental controls, your London Factory is presently installing equipment for the treatment of fluid wastes. This new system, which will be in operation by April, 1971 will cost \$130,000.

The Engineered Products Group will continue to devote its efforts and resources to the development and marketing of products and systems for the needs of the world's petroleum and petrochemical industries in the sophisticated Seventies. Strong emphasis will be given to the design of products to meet the escalating anti-pollution requirements peculiar to the industries we serve.

To Emco Shareholders (continued)

Emco Wheaton (International) Limited, in addition to its administrative function, is responsible for the coordination of all export marketing of our complete range of engineered products. Your company will continue its efforts to penetrate world markets and toward this end two additional group marketing coordinators have recently been appointed to work closely with agents and customers in the Middle East and South America.

It is, and should be, the right and responsibility of corporations, as well as citizens, to be aware of, and to make known, their management's views on issues of the day which could affect the company's future. Such a contemporary issue, is the emotional proposal that Canada drastically restrict the inflow of capital from outside its borders — all in the name of Canadian nationalism and retention of control of our identity. Emco has a sizeable investment outside Canada — currently profitable and assessed to be more so in the future. 99% of our shares are owned by Canadians. If an opportunity is presented outside of Canada that will further improve the return on our shareholders' equity, our past and present experience would support further foreign investment. We believe that capital has no nationality, particularly in the kind of shrinking world that is evolving around us. Should such a mistaken policy ever be accepted by government, it would adversely affect this company because it would:

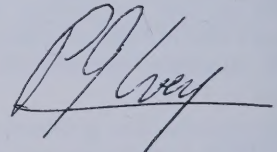
- (a) invite similar protective reaction by foreign countries where we presently are, and possibly could be, located.
- (b) compel government intervention at home by officials with little experience and no responsibility for entrepreneurial decisions.

Other countries have accepted Emco's investments for what they are, rather than mistake them as long arms of some political power trying to expand its influence. It is to be hoped that Canadians and their governments will recognize very real peril implicit in a policy of economic isolation.

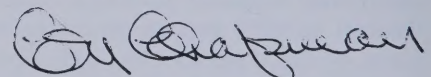
Your company's future is very closely related, and in fact entirely dependent upon, the development of people . . . people who are constantly having to cope with change . . . in their own jobs; in their departments; in their divisions. Emco is proud of and indeed fortunate to have in its employ the type of individuals who act and react creatively in this age of rapid change. Emco will always need people like these and will continue to provide the necessary incentives for the progressive development of the company's human resources.

We are pleased to acknowledge on your behalf the contribution of all Emco employees, who under adverse economic conditions, put forth that extra effort required during a difficult year.

On behalf of
the Board of Directors:



Chairman, Chief Executive Officer



President and General Manager

London, Canada, March 31, 1971

EMCO LIMITED AND SUBSIDIARIES

Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 1970 (with comparative figures for 1969)

	1970	1969
Sales, less sales taxes	\$83,810,493	89,380,133
Operating profit after minority shareholders' interest but before the undernoted items	5,067,323	6,059,581
Income from marketable securities	9,768	22,108
	5,077,091	6,081,689
Deduct:		
Depreciation	929,912	1,086,769
Interest on bank and other short-term advances	570,406	853,081
Interest on long-term debt	810,690	753,430
	2,311,008	2,693,280
Earnings before taxes on income	2,766,083	3,388,409
Taxes on income:		
Current	1,433,000	1,674,000
Deferred	101,000	(44,000)
	1,534,000	1,630,000
Earnings before extraordinary item	1,232,083	1,758,409
Extraordinary item — gain on sale of Stamped & Enamelled Ware Division	—	1,648,431
Net earnings for the year	\$ 1,232,083	3,406,840
Net earnings per common share after preference dividends — Note (5):		
Before extraordinary item	\$.98	1.39
Extraordinary item	—	1.32
Net earnings	\$.98	2.71

See accompanying notes to financial statements.

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1970 (with comparative figures for 1969)

	1970	1969
Amount at beginning of year	\$17,807,646	15,104,598
Add net earnings for the year	1,232,083	3,406,840
	19,039,729	18,511,438
Deduct dividends:		
Preference	6,635	16,859
Common	688,972	686,933
	695,607	703,792
Amount at end of year	\$18,344,122	17,807,646

See accompanying notes to financial statements.

EMCO LIMITED AND SUBSIDIARIES

ASSETS

	1970	1969
Current assets:		
Cash	\$ 130,760	102,558
Marketable securities, at cost (quoted value 1970, \$143,430; 1969, \$123,195)	163,833	144,833
Trade accounts receivable, less allowance for doubtful accounts (1970, \$475,044; 1969, \$670,280)	11,687,080	11,986,243
Inventories at the lower of cost or net realizable value	21,073,603	23,048,336
Prepaid expenses	340,142	393,069
Total current assets	<u>33,395,418</u>	<u>35,675,039</u>
Long-term receivables	199,081	236,201
Property, plant and equipment, at cost, less depreciation — Note (2)	9,636,327	9,640,461
Unamortized debt discount and expense — Note (3)	253,192	—
Deferred income taxes	122,388	223,388
	<u>\$43,606,406</u>	<u>45,775,089</u>

See accompanying notes to financial statements.

On behalf of the board: P. J. Ivey, Director; J. W. Adams, Director.

Consolidated Balance Sheet

DECEMBER 31, 1970 (with comparative figures for 1969)

LIABILITIES

	1970	1969
Current liabilities:		
Due to banks	\$ 4,425,719	3,348,082
Notes payable	57,483	3,057,483
Accounts payable and accrued expenses	6,219,646	8,010,856
Dividends payable	172,744	178,377
Current portion of long-term debt	229,297	231,112
Income and other taxes payable	1,665,566	1,692,947
Total current liabilities	12,770,455	16,518,857
Long-term debt — Note (3)	11,934,468	10,539,043
Minority interest in subsidiary companies	57,546	58,470
Shareholders' equity:		
Capital stock — Note (4)	499,815	851,073
Retained earnings	18,344,122	17,807,646
Total shareholders' equity	18,843,937	18,658,719
	<u>\$43,606,406</u>	<u>45,775,089</u>

Auditors' Report

We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and

subsidiaries at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants.

London, Canada.
February 26, 1971.

EMCO LIMITED AND SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31, 1970 (with comparative figures for 1969)

	1970	1969
Funds provided:		
Net earnings for the year	\$ 1,232,083	3,406,840
Add:		
Depreciation	929,912	1,086,769
Amortization of debt discount and expense	5,935	—
Deferred income taxes	101,000	(44,000)
Funds provided from operations	2,268,930	4,449,609
Issue of 9 ³ / ₄ % debentures	5,000,000	—
Issue of common shares	91,062	1,900
Decrease in long-term receivables	37,120	6,846
Total funds provided	7,397,112	4,458,355
Funds used:		
Fixed asset additions, net	925,778	1,742,438
Reduction in long-term debt	3,604,575	638,097
Redemption of second preference shares	442,320	239,310
Dividends on second preference shares	6,635	16,859
Dividends on common shares	688,972	686,933
Debt discount and expense	259,127	—
Decrease in minority interest in subsidiary companies	924	9,153
Total funds used	5,928,331	3,332,790
Increase in working capital	\$ 1,468,781	1,125,565
Working capital at end of year	\$20,624,963	19,156,182

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 1970

(1) Principles of consolidation:

The accompanying financial statements consolidate the accounts of all subsidiary companies and all material inter-company balances and transactions have been eliminated. The accounts of the subsidiary companies located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt — at rates current at the year end; fixed assets — at rates current on dates of acquisition; accumulated depreciation and related provisions against income — on the basis of dollar value of related assets; and operating income and other expenses — at average rates for the year.

(2) Property, plant and equipment:

	1970	1969
Buildings and roadways	\$ 9,065,482	8,903,057
Machinery and equipment	8,953,330	8,345,968
	18,018,812	17,249,025
Less accumulated depreciation..	9,345,852	8,574,331
	8,672,960	8,674,694
Land	963,367	965,767
	\$ 9,636,327	9,640,461

(3) Long-term debt:

	1970	1969
Emco Limited:		
5 ¹ / ₄ % sinking fund debentures, due October 15, 1973	\$ 1,657,500	1,893,500
5 ³ / ₄ % sinking fund debentures, due June 15, 1985	5,067,000	5,067,000
9 ³ / ₄ % sinking fund debentures, due July 15, 1990	5,000,000	—
United States subsidiary:		
Note payable	—	3,326,300
6% mortgage note payable in monthly instalments of principal and interest of \$3,583 U.S., due August 1, 1986 (U.S., \$434,056)	439,265	483,355
	12,163,765	10,770,155
Less amounts due within one year included with current liabilities	229,297	231,112
	\$11,934,468	10,539,043

(3) Long-term debt (continued):

Debenture debt falling due or to be met out of sinking fund payments, in the five years ending December 31, 1975, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, are as follows:

1971	\$ 211,500	1974	176,000
1972	246,000	1975	187,000
1973	1,260,000		

With respect to the 9³/₄% debentures, the company is obligated to establish a sinking fund to retire not less than \$3,000,000 principal amount by 1989. The sinking fund payments begin in 1976 in the amount of \$172,000 increasing each year thereafter to 1989.

The unamortized debt discount and expense was incurred on the issue of the 9³/₄% debentures and is being amortized over the term of the debentures on a straight line basis.

(4) Capital stock:

	Number of Shares as at December 31, 1970	
	Authorized	Issued
(a) Authorized, issued and outstanding:		
First preference shares with a par value of \$100 each	150,000	—
3% cumulative redeemable second preference shares with a par value of \$10 each	61,600	—
Common shares without nominal or par value	2,200,000	1,256,310

The outstanding share capital is as follows:

	1970	1969
First preference shares	\$ —	—
3% second preference shares	—	442,320
Common shares	499,815	408,753
	<u>\$ 499,815</u>	<u>851,073</u>

(b) Shares redeemed:

In accordance with the redemption provision with respect to the 3% cumulative redeemable second preference shares, 44,232 shares were redeemed at par during the year.

(c) Share options:

In 1960 and 1969 share option plans were established for certain executives whereby authorized and unissued common shares were reserved for issue under the plans. As at December 31, 1970, the following is a summary of the plans:

Shares under option at December 31, 1969	15,775
Granted during the year	2,500
	18,275
Options cancelled during the year	5,500
Shares under option at December 31, 1970	12,775
Shares available for future options	49,700

The shares under option are exercisable as undernoted:

Expiry Date	Option Price Per Share	No. of Shares
December 31, 1972	\$14.37	2,500
December 31, 1973	18.00	500
March 11, 1975	14.75	2,500
December 31, 1975	14.37	1,600
August 20, 1977	15.20	5,675
		<u>12,775</u>

In addition, 13,500 authorized and unissued common shares are reserved for issue at any time prior to December 31, 1972 for share options granted by Emco Wheaton Inc. (a subsidiary company) during 1967 to certain officers of Emco Wheaton Inc. at \$16.50 per share.

(d) Share purchase plan:

During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1970, the following is a summary of the plan:

Subscriptions at beginning of year	13,845
Subscriptions cancelled during year	6,560
Shares issued during year	7,285
Shares reserved under plan at beginning of year ..	50,000
Shares available for future subscriptions	42,715

Shares were issued during the year at the market value of the shares at the date of issue under the terms of the plan for an aggregate cash consideration of \$91,062.

(e) Dividend restrictions:

The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends or cumulative preference dividends, and the company may not effect any reduction to its capital stock which would reduce consolidated net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1970, the consolidated net current assets and shareholders' equity (as so defined) were substantially in excess of the minimum levels.

(5) Net earnings per share:

Net earnings per share are calculated using the weighted monthly average number of common shares outstanding during the respective fiscal years. If it were assumed that all of the options with respect to common shares outstanding at December 31, 1970 had been exercised as of January 1, 1970, they would have had no dilutive effect on earnings per share for 1970.

(6) Directors and senior officers remuneration:

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers was \$392,500 for the year ended December 31, 1970.

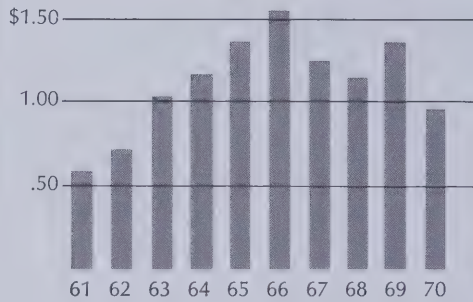
(7) Pension costs:

Pension costs are paid and charged against earnings in the year in which they are incurred. There are no significant unfunded past service costs at December 31, 1970.

Ten Year Financial Summary

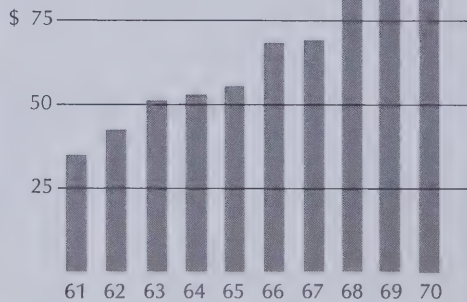
Earnings Per Share Before Extraordinary Items

(1961 - 1970)



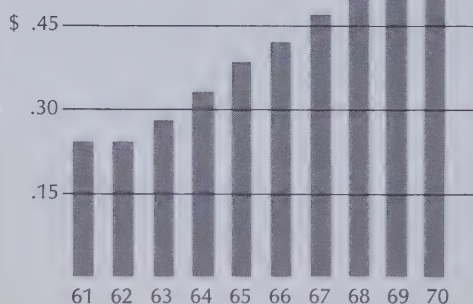
Sales Less Sales Taxes

(millions of dollars)
(1961 - 1970)



Dividends Per Share

(1961 - 1970)



SALES, LESS SALES TAXES

SOURCE AND APPLICATION OF FUNDS

FUNDS PROVIDED

Earnings before extraordinary items

Extraordinary items

Depreciation charged

Amortization of debt discount and expense

Deferred income taxes

Cash earnings

Issue of common shares

Minority interests

Issue of 5³/₄% debentures

Issue of 9³/₄% debentures

Note payable

Long-term debt, acquired companies

FUNDS USED

Capital expenditures — net

Redemption of second preference shares

Dividends — second preference

— common

Reduction in long-term debt

Deferred debt discount and expense

Investment in other companies

Excess of purchase price of subsidiary companies acquired during
the year over value of underlying net tangible assets

Other — net

Increase (decrease) in working capital

Working capital at December 31

COMMON SHARE RESULTS

Before extraordinary items

Net earnings

Cash earnings

Including extraordinary items

Net earnings

Cash earnings

Net worth at December 31

Dividends paid

Return on shareholders' equity at January 1
(based on earnings before extraordinary items)

1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
\$83,810	89,380	83,399	74,325	72,331	60,692	54,280	50,988	42,664	36,890
\$ 1,232	1,758	1,482	1,637	1,973	1,746	1,494	1,304	940	781
—	1,649	—	84	192	103	161	—	105	—
930	1,087	1,018	785	734	657	605	545	495	468
6	—	—	—	—	—	—	—	—	—
101	(44)	34	—	—	—	—	—	—	—
2,269	4,450	2,534	2,506	2,899	2,506	2,260	1,849	1,540	1,249
91	2	33	88	87	29	15	53	—	2
(1)	(9)	(38)	(371)	69	363	16	(5)	23	10
—	—	—	—	—	6,000	—	—	—	—
5,000	—	—	—	—	—	—	—	—	—
—	—	—	—	—	561	—	—	—	—
—	—	—	3,867	—	—	—	—	—	—
7,359	4,443	2,529	6,090	3,055	9,459	2,291	1,897	1,563	1,261
926	1,742	1,797	2,402	1,903	594	1,238	745	276	855
442	239	296	357	298	234	185	94	54	50
7	17	25	35	45	53	59	63	65	67
689	687	686	623	554	488	425	362	300	300
3,605	638	258	948	561	184	220	113	166	30
259	—	—	—	—	—	—	—	—	—
—	—	—	(54)	(84)	(72)	4	192	44	—
—	—	—	1,115	—	—	—	—	—	—
(38)	(5)	(88)	142	77	(67)	95	(19)	107	19
5,890	3,318	2,974	5,568	3,354	1,414	2,226	1,550	1,012	1,321
\$ 1,469	1,125	(445)	522	(299)	8,045	65	347	551	(60)
\$20,625	19,156	18,031	18,476	17,954	18,253	10,208	10,143	9,796	9,245
\$.98	1.39	1.17	1.28	1.56	1.39	1.18	1.02	.73	.60
1.80	2.23	2.01	1.91	2.16	1.92	1.68	1.47	1.14	.98
.98	2.71	1.17	1.35	1.71	1.47	1.31	1.02	.82	.60
1.80	3.55	2.01	1.98	2.31	2.00	1.81	1.47	1.23	.98
15.00	14.58	12.42	11.63	11.72	10.50	9.51	8.56	7.87	7.30
.55	.55	.53 ³ / ₄	.48 ³ / ₄	.43 ³ / ₄	.38 ³ / ₄	.33 ³ / ₄	.28 ³ / ₄	.25	.25
% 6.7	11.2	10.0	11.1	15.0	14.6	13.8	13.1	10.0	8.6

Note: Amounts shown above are thousands of dollars with the exception of data under the heading Common Share Results.

Financial Review

SALES, EARNINGS AND CASH FLOW

Sales from Canadian operations decreased 7% from 1969 sales, but the decrease was 5% if sales of the Stamped and Enamelled Ware Division, sold in 1969, are excluded from the 1969 figures. Sales from operations outside Canada increased by 2%.

Net earnings were as follows:

	Canada	International
1970	\$1,129,000	\$103,000
Percent of total	92%	8%
1969	1,582,000	176,000
Percent of total	90%	10%

Earnings of all foreign companies, outside of our U.S. subsidiary, showed increases over 1969 results. Our U.S. subsidiary experienced operating problems in 1970 with a loss for the year being recorded.

Cash income (income before depreciation and amortization, deferred taxes, and after preference dividends) per common share was \$1.80 compared to \$2.23 in 1969.

Full provision has been made for any gains or losses on conversion to Canadian dollars of the accounts of subsidiary companies outside Canada. During 1970 the net effect of such adjustments was to reduce net earnings by approximately \$56,000 or 4¢ per share.

INCOME TAXES

The corporate income tax rate for the parent company and its Canadian subsidiaries is approximately 53%. The effective rate in countries where subsidiaries are located outside of Canada is slightly less than 50%. Since there was a loss before provision for income taxes in one major subsidiary that could not be entirely offset against taxes paid in prior years and because of the large portion of income subject to Canadian income taxes, the total provision for taxes (which is the aggregate amount from the accounts of the individual companies) is 55% of consolidated earnings before taxes on income.

WORKING CAPITAL, RECEIVABLES AND INVENTORIES

Working capital increased by \$1.5 million and was \$20.6 million at the year end. The working capital ratio improved from 2.2 to 2.6 to 1.

Full provision has been made for possible losses on uncollectible accounts despite a reduction in the allowance by \$195,000 to \$475,000 at December 31, 1970. The allowance for doubtful accounts for the Canadian companies is determined annually on a formula basis related to the age of the receivables, and any decrease in the allowance generally indicates that the age of the related receivables has decreased on a year to year basis.

Inventories decreased by 8.5% reflecting the progress made in our program to reduce inventories when it became apparent that sales would not be maintained at anticipated levels. About 80% of the year end inventories are finished goods.

PROPERTY, PLANT AND EQUIPMENT

The following were the major items in the net capital expenditures during 1970 totalling \$926,000.

- Purchase of computer at Head Office (formerly leased).
- Addition to Central Pipe Warehouse including equipment — Emco Supply.
- Additional tooling and equipment — Plastic Products.
- Production equipment — Emco Wheaton U.K. Limited.
- Replacement of leased branch at Windsor, Ontario, with new building — Emco Supply.
- Extension to foundry building — Conneaut, Ohio.
- Office accommodation — Emco Wheaton (International) Limited.

All expenditures on patterns and tools are written off in the year of acquisition except that certain major dies or tools where the product life can be readily determined are written off over a five year period.

LONG TERM DEBT

As of July 15, 1970, \$5,000,000 9¾% sinking fund debentures were sold to the public through underwriters. As note (3) to the financial statements indicates, the sinking fund payments begin in 1976 and the debt discount and expenses relating to this issue will be amortized over the term of the debentures.

EMCO LIMITED

Executive Offices

London, Canada

Plumbing and Industrial Group

Divisions

Emco Supply — executive offices, Toronto, Ontario with 29 branches across Canada distributing plumbing, heating and industrial piping supplies to mechanical contractors and industry.

Barrie	Kingston	Peterborough	St. Catharines
Belleville	Kitchener	Prince George	Sudbury
Calgary	Lethbridge	Quebec	Toronto
Edmonton	London	Regina	Uxbridge
Guelph	Montreal	Saint John	Ville de Brossard
Halifax	Oshawa	Saskatoon	Weston
Hamilton	Ottawa	Sault Ste. Marie	Windsor
			Winnipeg

General Manufacturing — LONDON FACTORY, London, Canada — manufacturer of plumbing, heating and industrial piping products for sale to distributors.

PLASTIC PRODUCTS, Brampton, Ontario — manufacturer of plastic plumbing and piping components.

Canadian Clyde Tube Forgings Limited — Toronto, Canada — distributor of steel welding fittings for industry.

Engineered Products Group

Manufacturers and distributors of engineered fluid-handling equipment for the oil and petrochemical industries. These specially designed products include engineered loading and unloading equipment for tank truck and bulk terminals, service station equipment, fleet fueling systems and marine loaders for transferring liquid cargoes to and from supertankers.

Divisions

Research and Development Centre — Margate, England

Wheaton Australia Pty. Limited — Sydney and Melbourne, Australia

Emco Wheaton U.K. Limited — Margate, England

Emco Wheaton S.A. — Paris, France

Emco Wheaton GmbH (76% owned) — Kirchhain, West Germany

Emco Wheaton Inc. — Union, New Jersey and Conneaut, Ohio, United States

Emco Wheaton (Japan), Limited — Yokohama, Japan

Emco-Wheaton Limited — Toronto, Canada

EMCO LIMITED

Box 5300,

London 12, Canada.

Subsidiaries in Australia, Canada, Germany, Great Britain, France, Japan
and the United States.